Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Simplification of the Depreciation Prescription Process	)	CC Docket No. 92-296
	)	

COMMENTS OF THE COLORADO PUBLIC UTILITIES COMMISSION

March 10, 1993

SUMMARY

These comments are directed towards the depreciation prescription process that may be employed by the Federal Communications Commission (FCC) for evaluation of depreciation expenses of Local Exchange Carriers (LECs). The Colorado Public Utilities Commission (CPUC) does not recommend adoption of the proposals put forth in the Notice of Proposed Rulemaking (NPRM) to "simplify" the current depreciation process of the FCC.

The proposal for removing salvage and cost of removal from the determination of depreciation expenses appears to hold some promise although further definition and study of this proposal should be done by the FCC. For the other proposals put forth by the FCC, only the application of the "Basic Factors Range Option" to certain plant accounts, which include only a small or a negligible amount of investment, would appear to have some justification. For these few occurrences, the proposal does not appear to be much different than the current practice of prescribing depreciation rates for accounts with negligible investment. The remaining proposals by the FCC appear to abandon, in all but name, the statutory duties of the FCC contained in Section 220 of the Communications Act.

The basis or rationale for the NPRM appears to be some rather cursory references to memoranda on depreciation study costs for the

regulated telephone industry that were prepared by the industry, and the desire by the FCC for a reduction in the paperwork associated with depreciation rate studies submitted to the FCC. While the Colorado Public Utilities Commission is under no legal obligation to follow or use FCC-prescribed depreciation rates or procedures, the CPUC has generally attempted to maintain as much consistency with the FCC on these issues as possible in order to benefit the industry and the public interest. In fact, the CPUC has benefited from the availability of the depreciation study standards of the FCC and the knowledgeable expertise of the Commission staff members. However, adoption of the proposal(s) contained in the NPRM will, in all likelihood, cause a wide divergence in depreciation rate practices between the CPUC and the FCC. Rather than save administrative costs, this will place an additional cost and labor burden on the CPUC to maintain the level of analysis of depreciation expenses that is necessary in order to meet the requirements of general rate cases in the intrastate jurisdiction.

While the intent of the FCC NPRM may be to lessen the expense for the industry for performing depreciation analysis, the proposed actions may well backfire on the industry. First, for the primary telecommunications provider in this state, US West Communications, Inc. (USWC), to obtain any substantial rate adjustment for the intrastate jurisdiction, it will almost certainly have to review the primary component of its expense base which is the Colorado

specific depreciation expense. This issue will be thrown open to more discussion and controversy in intrastate rate case proceedings than it has been in the past under the Three-Way Meeting process between the FCC, CPUC and USWC. Second, the current use of the Equal Life Group (ELG) methodology is suspect if the overriding concern of the FCC is the expense burden of preparing depreciation studies. In addition, the study requirements that USWC might face in Colorado may begin to more widely differ from other states as the unifying influence of the FCC standards is lessened in this important area of utility ratemaking. It is not apparent from the preceding observations that USWC would materially benefit from a reduction, or essential elimination, of the FCC depreciation study requirements.

The CPUC supports the concerns raised in the Concurring Statement of Commissioner Ervin S. Duggan. Consideration of the positions of Commissioner Duggan should drastically reduce, or even eliminate, the necessity for the proposed rule(s).

I. INTRODUCTION

Within paragraphs seven and eight on page four of the NPRM, the FCC provides a very cursory explanation of the need for simplification. In terms of the $35 to $50 million dollar estimates by the industry for the annual costs of determining depreciation rate ranges that

are referenced in footnote nine at the bottom of page four of the NPRM, the FCC provides no evaluation of the accuracy or veracity of these estimates for use by the commenters. Before making any changes to the existing depreciation study process based upon cost estimates supplied by the industry, which certainly has a significant financial interest in the outcome of the NPRM, it is incumbent upon the FCC to thoroughly investigate the accuracy of these estimates before proceeding to a rulemaking. The CPUC has not been approached by the industry concerning the allegedly burdensome cost of these studies. Therefore, the accuracy of these estimates can only be gauged by comparing past experience with depreciation rate studies in Colorado with a pro rata share of the expense estimates.

Generally, the previously referenced cost estimates would appear to assign about $500,000 to $750,000 annually to Colorado, on a pro rata basis, for the determination of depreciation rate ranges. Almost all of this expense would be for USWC and would be comparable to the full time employment of seven to 10 individuals, with each individual earning in the range of $50,000 per year, just for review of Colorado depreciation rates. Currently the USWC Colorado depreciation rates are reviewed every three years in conjunction with the Three-Way Meeting, and USWC prudently assigns depreciation analysts to more than just one state. Therefore, the

above projections appear to be much too high.[1]

The above observation becomes more focused when consideration is given to the extent of the analysis and the source of the records used by a LEC in order to prepare the depreciation analysis required by the FCC. At the top of page four, the FCC states that:

> "A typical carrier submits studies totalling approximately 600 pages and averaging 20-25 pages of analysis per account. It is this part of the depreciation process we seek to simplify in this Notice."

However, the total depreciation study report is generated by the use of computers and software and is based on the property accounting records of the LEC. As the FCC previously noted in paragraph 54 of the Report and Order for Docket No. 20188 concerning the implementation of ELG[2], this is the age of computers and the necessary calculations contained within the depreciation study, though voluminous, are straight-forward and readily programmable. There are probably more pages of paper within an FCC depreciation study than are necessary. (Some of these pages could probably be eliminated simply by fully using each page within an

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[1] The CPUC believes the pro rata share for Colorado of the USWC employees actually engaged in depreciation analysis would be in the range of two or three employees.

[2] See Amendment of part 31 (Uniform System of Accounts for Class A and Class B Telephone Companies) so as to Permit Depreciable Property to be Placed in Groups Comprised of Units with Expected Equal Life for Depreciation under the Straight-Line Method, Report and Order, 83 FCC 2d 267, 283 (1980) (ELG Depreciation Order).

account analysis.) Some of the reserve balance and net salvage data contained within the typical analysis could either be condensed or entirely eliminated. (Particularly, if the FCC would decide to remove salvage and cost of removal from the determination of the depreciation rate.) Other pages within the analysis of an account are included by the carriers to justify their use of parameters derived from data outside of the normal mortality data requirements of the FCC depreciation studies. Therefore, the FCC could take steps to minimize the length of the depreciation study report without materially affecting the current review process.

In paragraph seven of the NPRM, the FCC states that the current depreciation process was a product of a time when the FCC regulated telephone earnings on a rate of return/rate base basis and a keen regulatory eye was necessary to ensure "reasonable charges" to rate payers. In paragraph eight, the FCC reasons that the advent of price cap regulation allows it to close the eyes of regulation to the expensing practices of the industry. However, in paragraph 40 of the NPRM, the FCC describes its price cap scheme for LECs as requiring a sharing of earnings with their customers if earnings fall within a specified sharing zone. The preceding sequence of statements within the NPRM represent a dichotomy.

At least for LECs, like USWC, the description within paragraph eight of the NPRM appears to imply that the FCC has not adopted a true price cap regulatory plan. Rather it appears to be employing

an incentive regulation plan that includes an earnings sharing mechanism dependent upon a review of the traditional components of rate of return/rate base regulation. The CPUC is in the process of adopting such a plan. Although this type of incentive regulation plan may lessen the frequency of general rate cases, it still requires vigilance of the major determinants of rate of return/rate base regulation in order to assure a "reasonable sharing of earnings" as well as "reasonable charges" to ratepayers.

In total, the Colorado depreciation and amortization expenses for USWC in 1991 were about 300 million dollars. This depreciation expense accounted for approximately 29 percent of the total Colorado expenses of USWC in 1991. These expenses were well over twice the net earnings of USWC in Colorado for that year. As the estimation of depreciation expenses are, at best, an inexact science, it would not be unreasonable for USWC to spend a yearly sum equivalent to approximately .3 percent of its total depreciation expenditures in order to more accurately gauge for itself, the regulators and the ratepayers, the consumption of its investment. Certainly, USWC expends more than one million dollars a year to measure and record the appropriateness of its corporate operations as well as the functioning of its network maintenance and operations systems. However, the magnitude of the expenditures for these functions, as recorded in its accounts, are each less than its depreciation expenses in Colorado.

The magnitude of the depreciation expenses coupled with inadequate regulatory oversight of the application of depreciation rates will certainly present the potential for the industry to manipulate or "game" depreciation expenses in order to produce desired financial results. It would be quite tempting to a LEC to adjust depreciation rates to eliminate or minimize any potential sharing of earnings with ratepayers while at the same time maintaining cash flow within the utility. For instance, a shift of ten percent in the 1991 level of depreciation expense would cause an estimated variation of the intrastate rate of return for USWC in Colorado of about 75 basis points or about 15 percent of net income.

Although an employee of the FCC or the CPUC staff does not have perfect knowledge of the exact depreciation rate necessary to recover invested capital in the future, neither do the LECs. The inexactness or lack of precision in assessing depreciation expenses has long been noted as observed by the statements of Supreme Court Justice Brandeis in United Railways & Electric Co. v. West, 280 U.S. 234, 262, 50 S. Ct. 123, 74 L.Ed. 390, (1930):

> ". . . an annual depreciation charge is not a measure of the consumption of plant during the year. No such measure has yet been invented. There is no regularity in the development of depreciation. It does not proceed in accordance with any mathematical law. There is nothing in business experience, or in the training of experts, which enables men to say to what extent service life will be impaired by the operations of a single year, or of a series of years less than the service life . . . even where it is known that there has been some lessening of service life within the year, it is never possible to determine with accuracy what percentage of the unit's service life has, in fact, been so consumed. Nor is it

> essential to the aim of the charge that this fact should be known. The main purpose of the charge is that irrespective of the rate of depreciation there shall be produced, through annual contributions, by the end of the service life of the depreciable plant, an amount equal to the total net expense of its retirement.
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> . . . . It is a bookkeeping device introduced in the exercise of practical judgment to serve three purposes. It preserves the integrity of the investment. . . . It serves to distribute equitably throughout the several years of service life the only expense of plant retirement which is capable of reasonable ascertainment-the known cost less the estimated salvage value. And it enables those interested, through applying that plan of distribution to ascertain, as nearly as is possible, the actual financial results of the year's operation."

The current depreciation prescription process of the FCC provides a systematic methodology for determining depreciation rates that strike a delicate balance between the interests of the utility and its stockholders with those of the ratepayers by meeting the purposes outlined by Justice Brandeis. The above quotation from the United Railways case was included as paragraph 12 by the FCC in its discussion of the role and purpose of depreciation accounting within the Report and Order in Docket 20188. In the following paragraphs 13 through 15 of that Report and Order, the FCC stressed the need for the utmost obtainable accuracy in determining the proper level of depreciation expenses to meet the criteria outlined by Justice Brandeis. It appears to the CPUC that the proposals advanced by the FCC may serve to abrogate the three purposes for maintaining depreciation expense accounting articulated many years ago by the learned jurist.

II. THE BASIC FACTOR RANGE OPTION

The Basic Factor Range Option (BFRO) proposed by the FCC would allow carriers to select the Future Net Salvage (FNS), projection life, and survivor curve for each applicable account from within an established range. Using this set of information, the carrier would then derive the applicable depreciation rate. The main benefits advanced by the FCC for this proposal are an expected savings in administrative costs and the ability to provide carriers with a greater degree of flexibility in selecting the basic factors than they have had in the past.

The CPUC does not believe that the administrative cost savings envisioned by the FCC will be very significant under this proposal. Assuming that all accounts are under the BFRO, the CPUC will still have to address Colorado-specific depreciation expenses within any general intrastate rate filing. Because a large part of this review of the basic factors is now done within the current Three-Way Meeting process, in which the assumptions as well as the proposals of USWC are subjected to review, more time and expense will be borne by the CPUC and interested consumer groups in Colorado to study and critique the depreciation expenses of USWC in a rate case environment. As noted by footnote 10 at the bottom of page 6 of the NPRM, the FCC expects that the cost to the carriers to implement the BFRO will not appreciably change. It would appear that the only administrative expenses that might be lessened

by the adoption of the BFRO would be those of the FCC. (Even this assumption might not even be accurate if the FCC is to take responsibility for the assessment of the applicable BFRO ranges.)

Even if the BFRO is adopted for only the current accounts that are eligible for the streamlined study process authorized by the FCC, the administrative cost savings for this proposal should be minimal. Historically, the Three-Way Meeting process has not spent very much time analyzing these accounts. The current streamlined study process does restrict the carriers to use of available mortality data, if not subjected to wide fluctuations, or to use of the previously prescribed basic factors. This process is only applied to accounts that comprise less than three percent of the total depreciable plant investment. If the LEC has properly analyzed the streamlined account under the FCC guidelines, the proposal of the carrier is generally accepted at the Three-Way Meeting. Because the data for calculation of the basic factors for these accounts is sometimes less than desirable on a state-by-state basis, use of the BFRO based on industry-wide data for these streamlined accounts may, to some extent, improve the accuracy of the depreciation rate estimates. Use of the BFRO for streamlined accounts would also provide the carriers with some regulatory flexibility but reserve the plant accounts with the largest amount of dollar investment for closer review by regulatory authorities.

IIa. Implementation of the BFRO

In the NPRM, the FCC has tentatively concluded that industry-wide data should serve as the initial basis for a statistical analysis to determine the range of the basic factors. It has also tentatively concluded that separate basic factors for both the LECs and interexchange carriers (IXCs), essentially AT&T, and that not all plant accounts should be initially subjected to the BFRO. The FCC has also tentatively concluded that use of the BFRO should be mandatory for all potentially affected carriers and for all applicable accounts. Finally, the FCC tentatively concludes that the initial basic factors should be selected on the basis of the current basic factors prescribed for the carrier plus a specified percentage change within an allowable time period.

If the FCC chooses to implement the BFRO, the CPUC does believe that the implementation should not include all plant accounts. The primary candidates for use of the BFRO are those accounts that are currently eligible for the streamlined study process currently authorized by the FCC. Essentially these are accounts that comprise less than three percent of the total depreciable plant investment within the state. The CPUC would assume that initially this restriction would apply to the total investment within the account and not to separate study categories that may have been established under the current depreciation prescription process for analysis convenience. For Colorado, accounts that are likely

candidates for the BFRO include:

Account Number	Type of Plant
2112	Motor Vehicles
2113	Aircraft
2114	Special Purpose Vehicles
2115	Garage Work Equipment
2116	Other Work Equipment
2122	Furniture
2123	Office Equipment
2220	Operator Systems
2231	Radio Systems
2351	Public Telephone Terminal Eq.
2362	Other Terminal Equipment
2411	Pole Lines
2424	Submarine Cable
2426	Intrabuilding Cable
2431	Aerial Wire

The above accounts include 18 of the 34, or 53 percent, of the separate analyses that were included in the 1991 Three-Way Meeting for Colorado, but total to only approximately 11 percent of the gross plant investment within the 1991 USWC Colorado study. These accounts generally do not have mortality information adequate to gauge service life on a state basis and are not significant enough,

in terms gross plant investment, for which to incur the cost of producing separate life cycle analysis as the LECs produce for some accounts. Use of the BFRO for an account such as Account 2124, General Purpose Computers, would probably not be acceptable to the CPUC because of the large amount of investment in this account and the very short service life associated with this type of investment. The CPUC would also assume that some dying plant accounts, such Account 2215 (Electromechanical Switching), would be excluded from the BFRO by the FCC.

While the comments of the CPUC are primarily directed towards the use of the BFRO for the LECs, the CPUC agrees that the FCC should separately review basic range factors for the LECs and the IXCs. Although the account classifications may be the same, the use of or type of equipment included in the account investment and the markets served by the LECs and IXCs are not the same. Therefore, simplification of the depreciation review process would best be served by separately reviewing LECs and IXCs.

Because the above-referenced accounts do not always, or usually, have acceptable historical data on a state basis, the use of industry-wide data to determine the basic factor ranges may provide more insight, if not accuracy, in determining the appropriate depreciation rate for the account. The FCC proposes to determine these basic factors by a statistical analysis, probably a frequency distribution analysis, of the factors underlying the currently

prescribed depreciation rates. This appears to be an acceptable basis on which to start the BFRO process, although use of basic factors derived from the state data of the regional operating company data should also be considered as it should be more reflective of the environment in which the LEC operates.

In paragraph 14 of the NPRM, the FCC raises the possibility of restricting the range of the basic factors to within one standard deviation of the mean value found for the basic factor from the industry-wide statistical analysis. Although this limitation appears reasonable on the surface, it does not restrict the LEC from choosing factors in such a manner that the depreciation rate derived from the basic factors experiences more volatility than allowed for these factors individually. However, the use of the one standard deviation limitation would be preferable to use of the entire range of the basic factors across the industry, which would allow more opportunity for manipulation of depreciation expenses. It would appear that the further limitation on the choice of the basic factors found in paragraph 20 of the NPRM is also necessary in order to minimize initial manipulation of the basic factors for financial reporting purposes by the LEC. LECs that have basic factors that lie outside of the allowable range should be brought within the range at the next scheduled review under the FCC depreciation process. If limitations on the range and rate of change of the basic factors are not adopted with the BFRO, the BFRO will be subject to manipulation in the same manner as the other

simplification proposals of the FCC contained in the NPRM.

It would also appear advisable for the BFRO to be implemented on a staggered basis over three years in conformance with the current FCC depreciation prescription process. It would be less confusing to all involved, regulators and carriers alike, if the process was changed on an incremental basis. In terms of whether the BFRO should be mandatory for all carriers and applicable accounts, the CPUC believes it should be optional for the carrier and also optional among the applicable accounts when adequate mortality data is available for the account. Since the FCC expects the carriers to continue to analyze depreciation factors and to maintain continuing property records (as noted in footnotes 10, 14, 17 and 25 within the NPRM), it would appear the carrier should have the option of using this data within the depreciation review process if it more accurately reflects the consumption of its plant. However, once the BFRO is elected for an account, the carrier should have to maintain that election for that account. If a carrier chooses to use the BFRO, as with all the other proposals within the NPRM, stockholders rather than ratepayers should be responsible for any depreciation reserve deficiencies that may develop for the specified accounts since the factors will be chosen by the carriers within the allowed ranges. As previously noted, the CPUC does not foresee significant administrative cost savings whether or not the BFRO is adopted by the FCC.

IIb. Review of the BFRO Ranges

In paragraph 21 of the NPRM, the FCC states that the basic factors must be periodically reviewed because they change over time. It goes on to state that the use of ranges may reduce the need to review the basic factors from every three years to once every five to ten years. These statements present a dichotomy within the BFRO proposal. If the basic factors are changing over time, a review after five, rather than three, years would appear to provide less accuracy to the depreciation review process. Also, as noted in footnote 14, the FCC appears to expect the carriers to continue to analyze depreciation basic factor information in order to determine the appropriate expense level. Based on past experience with LECs, the CPUC has found that a periodic review of depreciation rates within the range of three to, at most, five years is acceptable. A review period of more than five years has been found to increase the probability of problems with matching the depreciation expenses with the consumption of plant.

The CPUC does not believe that aggregating data at the regional company level or sampling across the industry-wide data will result in any additional cost savings or accuracy if all accounts are accorded BFRO treatment, primarily, because individual states will still require specific analysis of intrastate depreciation expenses for any potential general change in intrastate rates. If just accounts eligible for current streamlined treatment are included,

the aggregation may be more reasonable but the sampling technique would still be subject to a significant potential for bias without careful design of the sampling process. (We note here that the NPRM did not address the method of sampling.)

IIc. Related Issues for BFRO

The CPUC would agree with the FCC that the plant investment decisions of the LEC are the current primary factor behind the magnitude of the depreciation expense. However, the BFRO would allow the carrier to select basic factors that are not the same as dictated by its construction plans, although the factors would presumably fall within those experienced in the industry. As noted previously, most price cap plans depend to some extent on measurement of earnings on a rate of return/rate base basis. The BFRO allows the LEC more opportunity to explicitly manipulate depreciation expenses for financial earnings purposes, but is less susceptible than the other proposals advanced by the FCC in the NPRM.

As noted in paragraph 25 of the NPRM, the use of ELG is a more accurate method of straight line depreciation when the mortality data is available to determine the curve shape for a specific account of an individual carrier. The FCC also acknowledged in

paragraph 62 of the Report and Order[3] that the use of ELG imposes cost burdens on regulatory bodies in order to review depreciation rates using the ELG method. In paragraph 54 of that Report and Order, the FCC notes the voluminous nature of the calculations necessary to determine depreciation rates based on the ELG method. Based on the previous observations, if the FCC is truly interested in simplification of the depreciation prescription process, the CPUC believes that the FCC should eliminate the use of the ELG method for all accounts accorded treatment under the BFRO as well as for the other proposals included in the NPRM. To do otherwise is inconsistent.

III. The Depreciation Rate Range Option

The Depreciation Rate Range Option (DRRO) proposed by the FCC would allow carriers to select the depreciation rate for each applicable account from within a range established by the FCC from a statistical analysis of currently-prescribed rates. The main benefits advanced by the FCC for this proposal are an expected savings in administrative costs and the ability to provide carriers with a degree of flexibility in selecting depreciation rates they have never had in the past.

The CPUC does not believe that the administrative cost savings envisioned by the FCC will be very significant under this proposal.

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[3] ELG Depreciation Order, supra n. 1

Assuming that all accounts are under the DRRO, the CPUC will still be required to address Colorado-specific depreciation expenses within any general intrastate rate filing. Because this proposal largely abandons regulatory oversight over a large component of the expenses of a LEC, more time and expense will be borne by the CPUC and interested consumer groups in Colorado to study and critique the depreciation expenses of USWC in a rate case environment. Although, the current depreciation prescription process of the FCC might be avoided, the LEC would still be subject to preparation of depreciation analysis on a state-by-state basis. Therefore, the administrative cost savings under this proposal are probably not significant, unless the FCC intends to eliminate the maintenance of accounting and continuing property records with this proposal.

The DRRO proposal is so flawed in concept as to not warrant serious consideration. Therefore, these comments will not devote much attention to this proposal. The DRRO certainly would provide the LECs a degree of flexibility in setting depreciation rates that they have never had before. It would also allow the LECs to manipulate the depreciation expenses for desired financial results in a manner they have never had before. The DRRO, quite simply, fails to address the fundamental concept of depreciation which is to match the depreciation expense to the consumption of capital which is a requirement recognized long ago by Justice Brandies as well as the FCC in its Report and Order in Docket 20188.

The proposal also fails to address the fact that current depreciation rates include the effect of the ELG method for a significant number of accounts. The use of industry-wide data for the statistical analysis ignores the fact that the reserve balances vary by account for the different LECs. Therefore, the current depreciation rates for one LEC have very little meaning relative to the appropriate rate for another LEC. This could lead to significant over- or under-recoveries of investment through the depreciation rates. Because the LECs would have a significant opportunity to manipulate depreciation expenses for financial gain under the DRRO, any over-recovery should be refunded to ratepayers while under-recovery should be assigned to the stockholders.

If the DRRO is adopted by the FCC, it should be used for only the current accounts that are eligible for the streamlined study process authorized by the FCC. Use of the DRRO for the streamlined accounts would provide the carriers with significant regulatory flexibility but reserve the plant accounts with the largest amount of dollar investment for closer review by regulatory authorities.

In terms of the remaining issues addressed by the FCC concerning the DRRO, the comments on these issues by the CPUC on the BFRO are the same or would be very similar.

IV. The Depreciation Schedule Option

The Depreciation Schedule Option (DSO) proposed by the FCC would establish a depreciation schedule based on a Commission-specified average service life, retirement pattern and salvage value for each account. The carriers would then apply the schedule for each account to their investment in that account by vintage.

Although the description of the DSO included within the NPRM is not sufficient to provide a clear understanding of this proposal, the CPUC assumes that the intent is to determine a depreciation rate for each vintage of plant investment based on the Commission-specified basic parameters. This proposal appears to provide the carriers with less flexibility than the current depreciation process. Like most of the other proposals, the DSO does not attempt to match depreciation expenses with plant consumption but would eventually allow collection of one hundred percent of the plant investment over the service life in a particular account. Because of the apparent vagueness and reduced flexibility of this proposal, the CPUC does not recommend its adoption by the FCC.

The CPUC does not believe that the administrative cost savings envisioned by the FCC will be very significant under this proposal. Assuming that all accounts are under the DSO, the CPUC will still have to address Colorado-specific depreciation expenses within any general intrastate rate filing. Also, the LEC would still be

subject to preparation of depreciation analysis on a state-by-state basis and would appear to have to apply differing depreciation rates to vintages within the plant accounts, according to the most basic definition of this proposal. Under this proposal, the FCC would be responsible for the preparation of the Commission-specified parameters by the use of industry-wide data to establish an average service life, retirement pattern, and salvage value for the specific account.

As with the BFRO, the CPUC does not believe that the DSO should be implemented for all accounts. Again, the CPUC believes that the primary candidates for use of the DSO are those accounts that are currently eligible for the streamlined study process. Similar to the previous comments for the BFRO, a separate depreciation schedule should be established for the LECs and the IXCs.

Similar to our comments for the BFRO, it would also appear advisable to implement the DSO on a staggered basis over three years in conformance with the current FCC depreciation prescription process. Because of the potential adjustment problems with embedded, partially depreciated plant, it would be less confusing to all involved, regulators and carriers alike, if the process was changed on an incremental basis. If this proposal is implemented on a going-forward basis in an attempt to eliminate the depreciated embedded plant problem, the NPRM is not clear regarding how the embedded plant would continue to be depreciated. To use

depreciation schedules for each vintage of embedded plant, or to continue to depreciate embedded plant using the current depreciation methods, would appear to lessen any potential for simplification with this proposal.

Again, similar to comments on the BFRO, the CPUC believes the DSO should be optional for the carrier and also optional among the applicable accounts when adequate mortality data is available for the account. Since the FCC expects the carriers to continue to analyze depreciation factors and maintain continuing property records (as noted in footnotes 10, 14, 17 and 25 within the NPRM), it would appear the carrier should have the option of using this data within the depreciation review process if it more accurately reflects the consumption of its plant. However, once the DSO is elected for an account, the carrier should have to maintain that election for that account.

V. Price Cap Carrier Option

The Price Cap Carrier Option (PCCO) proposed by the FCC would not require the carriers to file any supporting data for their proposed depreciation rate changes. This option would essentially eliminate all of the current steps now taken by the FCC to analyze proposed depreciation rates by the carriers. The FCC would base depreciation rates upon the proposed rates of the carrier plus any